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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16794
December 18, 2003**

R E S O L U T I O N

**Resolution T-16794. Approval Of The California High Cost Fund-B
Administrative Committee Fund Surcharge Rate Effective January 1, 2004,
A Recast Budget For Fiscal Year (FY) 2003-04 And A Budget For FY 2004-05
To Comply With The Requirements Of Public Utilities Code Section
270(A).**

Summary

This resolution adopts a recast budget of \$520.472 million for FY 2003-04, a budget of \$438.866 million for FY 2004-05 and a revised surcharge rate of 2.2% effective January 1, 2004, until further revised by the Commission, for the California High Cost Fund – B (CHCF-B) Administrative Committee (AC) Fund. The recast FY 2003-04 budget includes up to \$39.0 million for payment of prior period claims. All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by December 24, 2003 revising the CHCF-B surcharge rate to 2.2% to take effect on January 1, 2004.

Background

In Decision (D) 96-10-066, the Commission established the CHCF-B program to provide universal service subsidy support in the high cost areas of Pacific Bell, GTE California, GTE Contel of California,¹ Roseville Telephone Company, Citizens Telecommunications Company of California, and new carriers that become Carriers of Last Resort (COLR)²

In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). § 270(b) requires that the monies in the CHCF-B and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

¹ At the issuance of D. 96-10-066, GTE California and GTE Contel (former Contel of California) operated as separate companies and were designated to receive subsidy for providing service in high cost areas. On July 1, 2000, GTE Corporation changed its corporate name to Verizon Communications Corporation.

² COX Communications was approved as a COLR on December 9, 1999 and the company has been filing claims from the CHCF-B since December 1999.

Resolution T-16690, dated April 17, 2003, adopted a CHCF-B AC Fund program FY 2002-03 budget of \$483.178 million and a surcharge rate of 2.7% effective July 1, 2003 till further modified by the Commission. The adopted FY 2003-04 budget needs to be revised to incorporate the actual fund balance of June 30, 2003, a revised billing base and revised projected program expenses including payments of prior period carrier claims.

The CHCF-B AC filed its FY 2004-05 expense budget with the Telecommunications Division (TD) on June 1, 2003.³ The expense budget projected expenses of \$443.19 million for FY 2004-05.

Notice/Protest

Notice of the CHCF-B AC's proposed FY 2004-05 budget letter request was published in the CPUC Daily Calendar on June 2, 2003. No comments or protests were received on the CHCF-B AC's proposed expense budget.

Discussion

In this Resolution, the Commission adopts the following:

- A recast CHCF-B program budget of \$520.472 million for FY 2003-04.
- A CHCF-B program budget of \$438.866 million for FY 2004-05.
- A surcharge rate of 2.2% effective January 1, 2004 until further revised by the Commission. The current surcharge rate is 2.7%.
- All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by December 24, 2003 revising the CHCF-B surcharge rate to 2.2% to take effect on January 1, 2004 and thereafter.

Appendix A shows a comparison of the CHCF-B AC Actual FY 2002-03 Budget, the recast FY 2003-04 budget based on actual 2002-03 data, and the FY 2004-05 budget as proposed by the Telecommunications Division (TD).

Actual FY 2002-03 budget

The actual FY 2002-03 budget reflects the actual revenues earned and expenses incurred by the CHCF-B Fund from July 1, 2002 through June 30, 2003 as reported by the Commission in the Certification of Year-end June 30, 2003 Financial report submitted to the State Controller's Office in August 2003. This report shows an ending fund balance as of June 30, 2003 of \$92.517 million.

³ Pursuant to Article 4.1. (a) of the CHCF-B AC Charter, the CHCF-B AC is required to submit a proposed FY 2004-05 by June 1, 2003.

Recast FY 2003-04 budget

Based on the telecommunications surcharge revenue remittances for FY 2002-03, TD revised the total intrastate billings subject to surcharge to \$20,045,096,000 for FY 2003-04. This forecast is based on a 3.6%⁴ growth on the actual FY 2002-03 billing base of \$19,357,891,000. The estimated billing base for FY 2002-03 adopted in Resolution T-16690 was \$19,329,985,000.

The recast FY 2003-04 budget is based on a beginning fund balance of \$92.517 million. Revenue forecasts are modified for changes in estimated intrastate billings subject to the surcharge rate.

The CHCF-B AC Fund's recast budget for FY 2003-04 takes into account the projected claims by the CHCF-B claimants for FY 2003-04. Per instructions from the Department of Finance, interagency costs have been reduced from the currently adopted \$4.9 million to \$3.3 million.⁵ Appropriation authority was received for up to \$39 million, including interest on unpaid amounts, in the FY 2003-04 budget for payment of prior period claims.⁶ The recast FY 2003-04 budget assumes that all outstanding prior period claims will be paid from the FY 2003-04 appropriated State Budget Amount. Based on these, the recast FY 2003-04 budget has been revised to \$520.472 million from the currently adopted \$483.178 million and the recast FY 2003-04 includes the \$39 million for payment of prior period claims.

An analysis of the recast budget indicates that a reduction of the current surcharge rate from 2.7% to 2.2% effective January 1, 2004 will be sufficient to fund the projected program expenses of \$520.472 million for FY 2003-04. The fund balance on June 30, 2004 is projected at \$30.438 million. The ending balance is equivalent to approximately three weeks of proposed program expenses for FY 2003-04.

FY 2004-05 Budget

For FY 2004-05, the billing base subject to surcharge is projected to be \$20,947.125 million. This amount reflects a 4.5% growth in the estimated FY 2003-04 billing base of \$20,045.096 million.⁷

The proposed FY 2004-05 CHCF-B budget is \$438.866 million. The budget includes an allocation of \$433 million for claim payments, \$2.1 million for financial, compliance,

⁴ This growth rate reflects personal income percentage changes for California projected by UCLA Anderson in September 2003 for 2003 and 2004.

⁵ Per instructions from Department of Finance dated 9/29/03

⁶ Per Budget passed by Assembly Bill (AB) 1765, \$522.196 million was appropriated for FY 2003-04. Of that amount, up to \$39 million may be used for payment of carrier claims from prior fiscal years.

⁷ This growth rate reflects personal income percentage changes for California projected by UCLA Anderson in June 2003 for 2004 and uses the fourth quarter of 2004 personal income percentage change for 2005.

surcharge remittance and carrier claims audits, \$24,000 for banking fees, \$1,650 for Advisory Committee expenses, \$103,000 for Administrative/Staff Costs, \$2.588 million for Inter-agency costs and \$50,000 for other operating and maintenance expenses.

The optimum surcharge rate that will generate enough revenue to support the FY 2004-05 budget is 2.2%. That surcharge rate is subject to change if actual conditions are different from assumptions. Based on a surcharge rate of 2.2%, the projected ending fund balance as of June 30, 2005 is \$57.017 million. The ending balance is equivalent to approximately six weeks of forecasted program expenses proposed for FY 2004-05.

Notice To Other Carriers, Advice Letter Filings, And Notice Of Availability

In Resolution T-15558 (dated June 8, 1994), we waived the notice requirements of General Order (G.O.) 96-A, Section III.G.1 to furnish competing utilities either public or private with copies of related tariff sheets. We did so because it did not appear to be in the public's interest for each utility to send and receive over two hundred notices advising them of regulatory changes about which they already know. Since that time nothing has happened to change our opinion, so we will waive this notice requirement for tariff changes which comply with this resolution.

The Commission oversees several public programs. The surcharge rates of one or more of these programs will be revised on January 1, 2004 and will remain effective until revised again by another Commission order. For administrative efficiency, we will allow all telecommunications utilities that are subject to the surcharges for these various programs to file concurrently revised tariff schedules in compliance with resolutions and decisions revising these surcharges in accordance with the provisions of G.O. 96-A on or before December 24, 2003. These advice letters shall become effective January 1, 2004 and will remain effective until revised again by another Commission order.

To be consistent with the Commission's commitment to utilize the Internet for distributing Commission orders and information, the TD has mailed a notice letter informing the telecommunications carriers and those on the service list of R.95-01-020/I.95-01-021 on the availability of the draft resolution as well as the conformed resolution, when adopted by the Commission, are available at www.cpuc.ca.gov.

Comments

In compliance with PU Code § 311 (g), copies of the Notice of Availability letter of the draft of this Resolution were mailed to the CHCF-B claimants, the CHCF-AC, and the parties on the service list of R.95-01-020/I.95-01-021. A copy of the cover letter of this mailing was also sent to each of the Commission certificated telecommunications carriers informing parties that this draft resolution is available at the Commission's website www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm, and is available for

public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

Comments filed on a timely basis will be addressed by the TD in this resolution.

Findings

1. In October 1999, Public Utilities Code (PU) Code §270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code §270(b) requires the monies in California High Cost Fund-B (CHCF-B) Administrative Committee (AC) Fund may only be distributed pursuant to §270-281 and upon appropriation in the annual Budget Act.
3. Based on the reported telecommunications revenues subject to surcharges from Fiscal Year (FY) 2002-03 and the forecasted growth of such surcharge remittance revenues, the estimated intrastate billings subject to surcharge are projected at \$20,045.096 million for FY 2003-04.
4. The recast FY 2003-04 CHCF-B AC fund budget of \$520.472 million, an ending balance of \$30.438 million on June 30, 2004 and a surcharge rate of 2.2% effective January 1, 2004 until further modified by the commission are reasonable and should be adopted.
5. On June 1, 2003, the CHCF-B AC submitted a letter request to the Director, Telecommunications Division, seeking the approval of the CHCF-B Fiscal Year (FY) 2004-05 expense budget of \$441.190 million.
6. The proposed Telecommunications Division's CHCF-B program budget for FY 2004-05 of \$438.866 million is reasonable and should be adopted.
7. The surcharge rate of 2.20%, effective January 1, 2004, until further revised by the Commission, is reasonable and should be adopted.
8. For administrative efficiency, it is reasonable to allow all telecommunications utilities that are subject to the various public program surcharges to file concurrently revised tariff schedules in compliance with the resolutions and decisions revising these surcharges in accordance with the provisions of G.O. 96-A on or before December 24, 2003. Such filings will become effective January 1, 2004 and remain in effect unless revised by another Commission order.
9. All certificated telecommunications carriers in California should apply this surcharge rate on their end-users' bills rendered on and after January 1, 2004.

10. A notice letter advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site was mailed to, the CHCF- B AC, claimants from the CHCF-B, parties of record in R.95-01-020 / I.95-01-021, and all telecommunications carriers.

THEREFORE, IT IS ORDERED that:

1. The recast budget for the California High Cost Fund-B (CHCF-B) Administrative Committee (AC) Fund for Fiscal Year (FY) 2003-04 of \$520.472 million, as set forth in Appendix A of this resolution, is adopted.
2. The budget for the CHCF-B for FY 2004-05 of \$438.866 million, as set forth in Appendix A of this resolution, is adopted.
3. The current surcharge rate of 2.7% is reduced to 2.2% effective January 1, 2004 until further revised by the Commission. All certificated telecommunications carriers in California shall apply the surcharge rate of 2.2% on their end-users' bills rendered on and after January 1, 2004.
4. All certificated telecommunications carriers required to file tariffs with the Commission should file advice letters by December 24, 2003 revising the CHCF-B surcharge rate consistent with this Resolution. The Advice Letters shall be effective January 1, 2004. The telecommunications carriers are not required to notice competing utilities for tariff changes that comply with this resolution.
5. All certificated telecommunications carriers who are required to collect the surcharges for the various public programs may concurrently file revised tariff schedules in compliance with the resolutions or decisions revising these surcharges by advice letters in accordance with the provisions of General Order 96- A, Section III, G.1 (Resolution T-15558 dated June 8, 1994) on or before December 24, 2003. The advice letter shall become effective January 1, 2004 and remain in effect until further revised by the Commission.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 2003. The following Commissioners approved it:

WILLIAM AHERN
Executive Director

APPENDIX A: CALIFORNIA HIGH COST FUND - B ADMINISTRATIVE COMMITTEE FUND						
RECAST BUDGET FOR FISCAL YEAR 2003-04 AND BUDGET FOR 2004-05						
ALL AMOUNTS IN (\$000)						
		FY 2002-03 July 2002-June 2003	FY 2003-04 July 2003-June 2004		FY 2004-05 July 2004-June 2005	
		Actual	Adopted T- 16690	Recast/Adopted Note 2	Proposed	Adopted
						Note
A	FY 03-04 TELECOMMUNICATIONS REVENUE SUBJECT TO SURCHARGES		\$ 19,845,588	\$ 20,045,096	\$ 20,947,125	\$ 20,947,125
B	SURCHARGE RATES					
	07/01 through 02/28/03	1.42%				
	03/01 through 06/30/03	2.20%				
	07/01 through 12/31/03		2.70%	2.70%		
	Effective 01/01/04		2.70%	2.20%	2.20%	
1	BEGINNING FUND BALANCE	\$ 443,972	\$ 7,254	\$ 92,517	\$ 30,438	\$ 30,438
2	PRIOR PERIOD ADJUSTMENTS		\$ (37,624)	\$ (37,624)	\$ -	\$ -
	FY 2001-02 Revenues received in FY 2002-03	\$ 3,649				
	FY 2001-02 Appropriation Balance Per 06/30/02 Certification	\$ (59,436)				
3	REVISED BEGINNING FUND BALANCE (sum of Ln 1 and Ln 2)	\$ 388,186	\$ (30,370)	\$ 54,893	\$ 30,438	\$ 30,438
4	TRANSFER TO GENERAL FUND PER LEGISLATIVE MANDATE	\$ (250,900)	\$ -	\$ -		
5	REVENUES					
a	Surcharges (Ln A* Ln B)	\$ 384,755	\$ 535,831	\$ 491,105	\$ 460,837	\$ 460,837
b	Investment Income	\$ 5,214	\$ 298	\$ 4,911	\$ 4,608	\$ 4,608
c	Others					
d	Total Revenues (sum of a thru c)	\$ 389,969	\$ 536,129	\$ 496,016	\$ 465,445	\$ 465,445
6	FUNDS AVAILABLE for FY (Sum of Ln 3, Ln 4 and Ln 5)	\$ 527,255	\$ 505,759	\$ 550,909	\$ 495,883	\$ 495,883
7	PROGRAM EXPENSES					
a	Carrier Claims (Current)	\$ 433,827	\$ 475,000	\$ 475,000	\$ 433,000	\$ 433,000
b	Carrier claims for prior fiscal years			\$ 39,000		
c	Interest for Untimely Payment (current claims)		\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
d	Other Legislative Mandated Programs				\$ -	\$ -
e	Administrative Committee-Per Diem	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
f	Administrative Committee-Travel and Others	\$ 0	\$ 1	\$ 1	\$ 1	\$ 1
g	Admin. Committee-Special Needs Accommodation					
h	Financial Audit		\$ 100	\$ 100	\$ 100	\$ 100
i	Compliance Audit	\$ -	\$ 500	\$ 500	\$ 500	\$ 500
j	Surcharge Remittance Audit	\$ 200	\$ 600	\$ 600	\$ 600	\$ 600
k	Claim Audit	\$ 466	\$ 900	\$ 900	\$ 900	\$ 900
l	Banking Fee	\$ 132	\$ 23	\$ 23	\$ 24	\$ 24
m	Interagency Cost *	\$ -	\$ 4,900	\$ 3,347	\$ 2,588	\$ 2,588
n	CPUC Staff Costs	\$ 69	\$ 103	\$ -	\$ 103	\$ 103
o	Other Operating Expenses	\$ 42	\$ 50	\$ -	\$ 50	\$ 50
p	Total Program Expenses (sum of a thru o)	\$ 434,738	\$ 483,178	\$ 520,472	\$ 438,866	\$ 438,866
8	FUND BALANCES (Ln 6 - Ln 7)					
	As of June 30, 2003	\$ 92,517				
	As of June 30, 2004		\$ 22,581	\$ 30,438		
	As of June 30, 2005				\$ 57,017	\$ 57,017
Notes						
1	Beginning fund balance for FY 2002-03 is based on the certification of Year-End 6/30/02 Financial Reports and the beginning fund balance of FY 2003-04 is based on certification of Year-End 6/30/03 Financial Report .					
2	The FY 2003-04 budget is updated to reflect the ending balance as of June 30, 2003, the revised billing base, the per diem, travel and other expenses, and interagency costs.					
3	The amount of \$250.9 million was transferred to the general fund in September 2002 pursuant to Chapter 379 Statutes (2002 Budget Act).					
4	Claim projections for FY 2004-05 are based on estimates submitted by carriers in April 2003.					
5	Based on actual income as reported by the State Controller for FY 2002-03.					
	For FY 2004, based on 2% of interest per annum and average monthly balances.					
6	Recast FY 2003-04 budget includes additional appropriation of upto \$39 million for payment of prior period claims pursuant to Assembly Bill (AB) 1765 item 8660-001-0470.					
7	Pursuant to D.02-04-059, the per diem and other costs costs are authorized Committee members attendance of CHCF-B AC meetings. Consistent with Department of Finance Budget Letter 03-02, one meeting is scheduled for FY 2004-05.					
8	Per instructions from Department of Finance dated 09/29/03					
9	Represents costs of maintaining the lock box account.					
10	This includes costs of SQL programming and maintaining the electronic filing system, staff travel, equipment and other overhead costs.					